Annex
to the Bank of Russia Information Letter
'On Recommendations for Developing Methodology of ESG Ratings (Sustainability Ratings) and Practices of their Assignment'

RECOMMENDATIONS
for Developing Methodology of ESG Ratings (Sustainability Ratings) and Practices of their Assignment

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1. Introduction

Public interest in the fast-growing market for ESG[1] ratings (publicly available assessments of environmental, social and governance parameters of an entity, a financial product or a financial instrument) is associated with a number of reasons. Firstly, ESG ratings are an integral part of the policy for transition to a low-carbon economy as they help evaluate how significantly entities may impact the environment and be exposed to external risks. ESG ratings should be reliable and credible to be taken into account when management or investment decisions are made. Besides, as ESG ratings are updated over time, the earlier decisions may be analysed for their effectiveness.

Secondly, ESG ratings are related not only to the transition to a low-carbon economy, but also to a broad range of issues associated with economic growth, employment, equality, and other sustainable development issues. ESG ratings are frequently compared with traditional credit ratings, although the former may have a higher impact. The consistency, integrity and timeliness of ESG ratings are crucial for future sustainable growth of Russia's economy and the world economy in general.

Thirdly, the ESG rating process involves a number of problems that should be addressed to protect consumers' rights in the financial market. Such issues as a lack of independence and transparency and possible conflicts of interest are typical of both rating procedures in general and ESG ratings in particular. To apply ESG ratings efficiently, the methodology should specify their definition, the minimum range of factors and a single rating scale, as well as ensure their comparability. By handling these tasks, it will be possible to maintain confidence in the assigned ratings among both users of ESG ratings and rated entities.

Finally, ESG ratings are a tool of communication with the international market. They ensure access to external markets and the competitiveness of the Russian economy. A certain part of Russian rated entities already have ESG ratings

[1] Environmental, social and governance.

assigned to them abroad. Since ESG ratings are publicly available, interpretable and comparable, they contribute to creating a common coordinate system with foreign economic partners. High-quality ESG ratings help maintain and strengthen the positions in the international market.

In 2021, the International Organization of Securities Commissions (IOSCO) released the report on ESG ratings and data products.[2] According to IOSCO, ESG ratings can refer to the broad spectrum of rating products that are marketed as providing an opinion regarding an entity, a financial instrument or a product, a company's ESG profile or characteristics or exposure to ESG, climatic or environmental risks or impact on society and the environment that are issued using a defined ranking system of rating categories, whether or not these are explicitly labelled as 'ESG ratings'. IOSCO defines ESG data products as the broad spectrum of data products that are marketed as providing either a specific E, S, or G focus or a holistic ESG focus on an entity, a financial instrument, a product, or an entity's ESG profile or characteristics or exposure to ESG, climatic or environmental risks or impact on society and the environment, whether or not they are explicitly labelled as 'ESG data products'.

Analysing the situation in the market for ESG ratings and data products, IOSCO calls for the regulation and oversight of this market. A number of jurisdictions, including Japan, India, the European Union, and the United Kingdom, are considering how they can improve the quality of the assessments, including by adopting a legal framework to regulate sustainability ratings. The planned revision of the G20/OECD Principles of Corporate Governance[3] emphasises the importance of ESG ratings and indices as they can have a significant influence on companies' corporate governance and sustainable development policies through ESG rating and indexing methodologies. Therefore, such methodologies should be transparent and available to clients and market participants. This is paramount when ESG ratings

[2] Environmental, Social and Governance (ESG) Ratings and Data Products Providers. Final Report No. FR09/21. The International Organization of Securities Commissions, 2021. https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf

[3] Organisation for Economic Co-operation and Development.

and indices are used in government regulation. In addition, IOSCO notes that metrics and methodologies used to measure ESG performance vary. ESG ratings methodologies (hereinafter, the methodologies) may vary with respect to how ratings providers collect data, what information sources they rely on (public disclosure, questionnaires, or data produced by third party suppliers), how they process collected data, how they weigh quantitative or qualitative factors, and how they set out subcategory metrics.[4]

Considering that similar trends have been developing in the domestic market, the Bank of Russia has devised these recommendations to enhance the quality of the methodology and the practice of assigning ESG ratings. Compliance with these recommendations will help make ESG ratings more reliable and fair. These recommendations were harmonised with the Bank of Russia Recommendations for Public Joint-stock Companies to Disclose Non-financial Information Regarding Their Operations (Bank of Russia Information Letter No. IN-06-28/49, dated 12 July 2021).

These recommendations are meant to **harmonise ESG ratings**, that is, to ensure the **interpretability**, **transparency** and **comparability** of ESG ratings. In order to harmonise ESG ratings, the Bank of Russia considers it necessary to address a number of methodological issues, including to standardise the definition of the term ‘ESG ratings’, establish a minimum set of elements, and introduce a single rating scale for all ESG ratings providers. These recommendations are applicable to ratings, other than credit ratings, as well as other publicly available sustainability assessments.

In these recommendations, an **ESG rating** (**sustainability rating**) means a publicly available independent external opinion regarding the profile of a rated entity (company or issuer), that is, the quantitative and qualitative characteristics of its sustainability performance, as of the date of the ESG rating, as well as the rated

[4] Refer to the OECD Working Papers: Institutional investors and stewardship, 2022.

entity's corporate governance and its exposure to sustainability risks over a time horizon from one to three years. An ESG rating should combine the evaluations of both the rated entity's potential impact on the environment and society and its exposure to sustainability risks over the said time horizon. According to the double materiality principle, these two evaluations produce a mutual impact[5]. The contributions of particular sustainability risks to an ESG rating can be identified through disclosure of information about ESG elements.

These recommendations are targeted at the following audiences:

- Credit rating agencies as the main ESG market participants.
- Stakeholders, other than credit rating agencies, who also provide sustainability assessment services.
- Financial institutions making non-public assessments of clients. They may apply these recommendations or individual provisions hereof for their internal purposes.
- Rated entities who need to comprehend the evaluation criteria and the potential for improving their performance.

The target of the methodology is legal entities forming the largest segment of ESG ratings. These recommendations should not be used to evaluate state and municipal authorities or financial instruments. These recommendations provide a model-based methodology and may be applied as guidelines for ESG ratings providers and help them develop their own methodologies.

[5] The double materiality principle refers to the materiality of reporting the information on how an entity takes into account ESG factors and related risks and opportunities and their influence on the entity's financial performance, as well as the information on the entity's impact on the environment (including climate), society and the economy (information on sustainable development). According to the double materiality principle, ESG factors and related risks and opportunities can reasonably likely change financial performance, which is why these issues are typically of most interest to shareholders and investors. Moreover, the company's impact on the environment (including climate), society and the economy, as well as the company's progress towards sustainable development goals are material to a much wider scope of stakeholders who in turn might be material to the company's long-term value creation. Refer to Report on Sustainability-related Issuer Disclosures. Final Report. OICU-IOSCO. The International Organization of Securities Commissions. June 2021. https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf; Communication from the European Commission. Guidelines on reporting climate-related information, 17.06.2019, C(2019) 4490 final https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

2. Organisational issues and rating practice

The organisation of the work and the practice of assigning ESG ratings are no less important than the methodology as such. Rating activities are based on the Code of Conduct Fundamentals for Credit Rating Agencies released by IOSCO in 2015[6] and taken into account by a number of jurisdictions, including the Russian Federation, in their national laws. Its key provisions repeat the Code of Conduct for ESG Evaluation and Data Providers issued by the Financial Services Agency in 2022.[7] The key principles of rating activities in the area of sustainable development are transparency of ESG ratings, development of human resources related to ESG, appropriate management of conflicts of interest, and communication with ratings users and rated entities. Considering the international experience, the Bank of Russia recommends adhering to the principles and procedures described in the section below.

2.1. Securing the quality and transparency of ESG ratings

- ESG ratings providers should develop and publish a methodology defining the terms and describing the process for evaluating the elements of each pillar. The methodology should serve as an internal standard ensuring high quality of rating activities, regardless of the level of competencies of the personnel engaged in the ESG rating process. The methodology should be revised on a regular (annual) basis through the analysis of errors and omissions in the assessments in the case of inconsistency in the evaluation procedures and results.
- Data collection, processing and evaluation procedures should be stipulated for each pillar and its elements. ESG ratings should be assigned on a unified and comparable basis, irrespective of raw data (assessments based on public information, questionnaires or third parties' data), a rated entity (company) and a remuneration model (subscription-based services or rated entities' payment).

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[6] Code of Conduct Fundamentals for Credit Rating Agencies. Final Report No. FR05/2015. The International Organization of Securities Commissions, 2015. https://www.iosco.org/library/pubdocs/pdf/IOSCOPD482.pdf

[7] The Code of Conduct for ESG Evaluation and Data Providers. Financial Services Agency, the Japanese Government, 2022. https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf

- The elements of each component should be evaluated relying on a professional opinion in the course of the assessment of logical (yes/no) parameters, such as 'the availability of a policy / strategy / roadmap / plan'. Considering the content of the parameter under review, as well as the importance and materiality of identified risks, the assessment should be adjusted.
- It is recommended to disclose the sources of information used to evaluate each element of a particular pillar. Specifically, when estimated values are used, this fact should be mentioned, along with the underlying estimation methodology. If there are multiple sources or a large volume of data, it is recommended to rely on the principle of reasonable practicability, e.g., to consolidate or limit the volume of data depending on their importance for the final evaluation.
- An ESG rating should be assigned on a relative, comparable basis as an intragroup comparison of rated entities. Besides, it is essential to carry out an intersectoral assessment to ensure the uniform application of the methodology, develop human resources related to ESG, and enhance the rating process.
- A particular focus should be put on disclosing the information about significant adjustments in an ESG rating and its elements based on ESG ratings providers' expert opinion. Disclosure of the adjustments ensures full transparency of the ESG methodology and the specifics of assigning ESG ratings.
- ESG ratings should be updated annually, following the publication of sustainability-related information by rated entities. Besides, an ESG rating might be revised where material information that might impact the evaluation becomes available. For ESG ratings to be revised in a timely manner, it is necessary to carry out regular (quarterly) monitoring of rated entities.
- The diverse nature of the ESG components and varying approaches to their consolidation into an integral assessment (an aggregate ESG rating) can make the interpretation of the aggregate rating somewhat complicated for users. ESG ratings providers are advised to disclose individual ratings for each of the ESG

pillars.[8] Furthermore, to ensure the transparency and independence of evaluations, it is recommended to publish the quantitative / qualitative measures of the elements of the ESG components. ESG ratings users should have access to the measures of all the pillars and their respective elements for the entire period of the assessment of the ESG components, and see the dates when the assessments of the elements were updated. Where an aggregate ESG rating is published, ESG ratings providers should give a clear and detailed explanation of its essence as an economic phenomenon and describe the algorithm used to consolidate the relevant ESG components.

- Where the assessment of the elements or the assessment service is outsourced, appropriate measures should be taken to ensure control and high quality of the evaluation and the reliability, completeness and relevance of data supplied by third parties. Such third parties should adhere to the same principles and procedures that are applied by ESG ratings providers.

2.2. Competencies and development of human resources

- ESG ratings providers should have competent specialists capable of ensuring high quality of rating services and improve their competencies. These specialists should have competencies required to assess each of the three ESG pillars.
- It is recommended to carry out regular (annual) advanced trainings for employees and to communicate with relevant third-party organisations in order to implement and use their experience.
- The methodology, analytical reports and notes, as well as minutes should be properly documented to maintain the required set of rated entities' competencies, regardless of staff rotation.
- To ensure the efficiency, reliability and high quality of employees' work, it is essential to carry out staff performance reviews and develop the approaches to remuneration considering compliance with the ESG rating principles and best practices.

[8] The Environmental, Social and Governance pillars.

2.3. Independence and mitigation of conflicts of interest

- ESG ratings providers should be independent of ESG ratings users or rated entities. Providers who are affiliated with rated entities, have another type of business relations with them, are interconnected because they have common employees, or are relatives cannot be considered independent.
- It is recommended to regulate the procedures or establish the requirements ensuring the independence of decision making and the resolution of conflicts of interest that might be associated with rated entities and their ownership structures, business, investment, borrowings, and remunerations payable to executives and employees. Where a rated entity pays for the services, it is advised to implement more detailed procedures for controlling the integrity and independence of the ESG rating process.
- To prevent conflicts of interest, it is recommended to clearly describe the situations that might affect the independence, integrity and objectivity of the ESG rating process, help avoid potential conflicts of interest and establish the procedure for eliminating them if such conflicts are identified.
- When questionnaires or interviews are used for the evaluation, the questions should be phrased and structured in a way to prevent a situation where answers to the questions imply the provision of other commercial services to rated entities.
- It would be reasonable to mitigate the possibility of a situation where an employee engaged in a rating evaluation carries out transactions with financial instruments or have any other economic interest in relation to the rated entity, which might entail conflicts of interest associated with the assessment services and ESG data provision.
- An ESG ratings provider is recommended to organisationally separate the staff responsible for ESG ratings from the staff providing rating services, assessments and ESG data.
- Documents stipulating the measures aimed at preventing conflicts of interest should be publicly available and revised on a regular (annual) basis, with account of the accumulated experience.

2.4. Communication with ratings users and rated entities

- ESG ratings providers should organise a corporate data collection system guaranteeing the reliability, completeness and relevance of the information supplied. When ratings are assigned without concluding an agreement with the rated entity, it is recommended to ensure communication with this entity in order to receive information from it and verify the data obtained from other sources.
- Where there is no confidence in the accuracy and completeness of the information, additional inquiries should be made, and the data supplied by third parties should be verified. If raw data are not complete or reliable, it is recommended not to assign an ESG rating. ESG ratings providers are advised to publish the assessments only upon rated entities' consent.
- The elements and components of ESG ratings should be published in a format that would be convenient for users and enable them to search for and compare rated entities across sectors (industries, economic activities), dates or particular elements.
- A feedback procedure should be introduced to ensure interaction with users and rated entities. It is advised to stipulate a convenient format for applications and a deadline for giving replies and appoint an employee in charge of this task. Replies to standard and frequently asked questions might be disclosed by an ESG ratings provider on its website.
- Rated entities should have the opportunity to confirm raw data and the right to a revision of the evaluation results if any errors are identified. To address such situations, it is recommended to appoint contact persons or a unit who can provide an explanation of the evaluation results.

3. Evaluation of the pillar 'Governance'

When assessing the G component, ESG ratings providers should evaluate the procedures and practices implemented by a rated entity with regard to each of the main corporate governance elements of the rated entity (company). The main elements of the G pillar recommended for evaluation are:

1) the ownership structure and the exercise of rights by shareholders (members);

2) governing bodies;

3) strategic management;

4) the remuneration system;

5) risk management, internal control and internal audit; and

6) data disclosure.

Corporate governance practices and related risks might either be common or differ depending on the form of incorporation, the ownership structure, the scale and sectoral specifics of rated entities' operations. These recommendations consider the elements of the G component and the related criteria for evaluating these elements focusing on public joint-stock companies whose shares are listed (listed companies). To assess rated entities, other than listed companies, it is recommended to take into account the specifics of corporate governance in such entities, including but not limited to the arrangement of the structure of their governing and control bodies (e.g., the absence of the board of directors (supervisory board)),[9] the redistribution of competencies across the entity's governing bodies, additional rights held by shareholders (members) or restrictions on their rights pursuant to the entity's charter or the corporate agreement, and the specifics of the implementation of corporate procedures. Hence, the form of incorporation, the ownership structure, the scale, and the sectoral and other specifics of the rated entity's operations can be taken into account by including other G elements in the evaluation perimeter and/or by excluding non-relevant ones from it.

In addition, when determining the range of practices assessed for each particular G element, it is advised to take into account the applicable regulatory requirements to the rated entity's corporate governance.

To evaluate each of the corporate governance elements, it is recommended to specify the list of evaluation criteria and the factors that should be considered when

[9] Nevertheless, even if a rated entity does not have the board of directors (supervisory board), this does not decrease the importance of the assessment of the entity's strategic management practices, risk and conflict of interest management, remuneration system, etc. In this case, it is recommended to evaluate the entity's mechanisms for control over the work of its executive bodies, their efficiency, and the system of checks and balances.

analysing such criteria that help form a professional opinion regarding the rated entity's approaches to arranging particular procedures (practices) and their practical implementation.

Although the impact of sustainable development issues may vary across entities, they still influence the activity of any entity creating both risks and new opportunities, regardless of the scale and nature of its operations and/or other specifics. When assessing the G pillar, it is recommended to particularly focus on the sustainability practices and procedures implemented by the rated entity in the course of its strategic and operational management, risk control and management, the creation of the remuneration system and data disclosure practices and procedures. With regard to financial institutions, it is also recommended to evaluate their responsible investment practices.

The G elements should be evaluated in conjunction with each other as the use of inadequate practices in one of the areas of the corporate governance system might directly affect all other areas.

With regard to entities within holding companies (groups of companies), it appears important to assess the G component taking into consideration the extent of the rated entity's autonomy and independence in the selection and implementation of particular governance practices and the entity's functions and roles in the holding company (group of companies).

When corporate governance elements are assessed, the following should be considered:

- Internal documents, including rules and procedures, regulations, policies, etc. The results will evidence the availability and quality of the basis for forming a professional opinion about the extent of compliance with the key corporate governance principles at the level of the documentation of corporate governance-related processes.
- The practical part is the evaluation of how the rated entity implements the procedures (practices) established in its internal documents. The assessment of the actual implementation involves the analysis of the documents (information)

disclosed or supplied by the rated entity, as well as the data collected in the course of communication with the entity's representatives (e.g., within interviews, questionnaires, etc.) or the data obtained from its shareholders (e.g., minority shareholders' information on whether their rights are respected).

The assessment of the elements of the G pillar could rely on the Bank of Russia's corporate governance and sustainable development recommendations as a methodological material, including the Corporate Governance Code,[10] the Recommendations for Disclosing the Report on Compliance with the Principles and Recommendations of the Corporate Governance Code in the Annual Report of a Public Joint-stock Company,[11] the Recommendations for Establishing and Ensuring the Succession of Boards of Directors (Supervisory Boards) of Public Joint-stock Companies,[12] the Recommendations for the Participation of Boards of Directors (Supervisory Boards) in Public Joint-stock Companies' Information Technology Development and Management and Cyber Security Risk Management,[13] the Recommendations for Public Joint-stock Companies to Organise and Conduct a Self-assessment of Efficiency of Their Boards of Directors (Supervisory Boards),[14] the Recommendations for Public Joint-stock Companies to Organise Risk Management, Internal Control, Internal Auditing, and the Work of Audit Board Committee[15], the Recommendations for Public Joint-stock Companies to Disclose Non-financial Data Regarding Their Operations,[16] the Recommendations for the Board of Directors of a Public Joint-stock Company to Consider ESG Factors and Sustainable Development Issues,[17] the Recommendations for Financial Institutions to Consider ESG Factors and Sustainable Development

[10] Approved by the Bank of Russia Board of Directors on 21 March 2014 and recommended in Bank of Russia Information Letter No. 06-52/2463, dated 10 April 2014, for application by joint-stock companies whose securities are listed.

[11] Bank of Russia Information Letter No. IN-06-28/102, dated 27 December 2021.

[12] Bank of Russia Information Letter No. IN-06-28/80, dated 22 April 2020.
[13] Bank of Russia Information Letter No. IN-06-28/45, dated 24 May 2019.
[14] Bank of Russia Information Letter No. IN-06-28/41, dated 26 April 2019.
[15] Bank of Russia Information Letter No. IN-06-28/143, dated 1 October 2020.
[16] Bank of Russia Information Letter No. IN-06-28/49, dated 12 July 2021.
[17] Bank of Russia Information Letter No. IN-06-28/96, dated 16 December 2021.

Issues in Their Corporate Governance,[18] the Guidelines for Members of Financial Institutions' Board of Directors (Supervisory Board),[19] the Recommendations to Financial Institutions' Executive Bodies,[20] the Recommendations for the Implementation of Responsible Investment Principles,[21] and the Recommendations for Financial Institutions to Provide (Disclose) Information on Sustainable Finance Products to Their Clients.[22]

3.1. The entity's ownership structure and the exercise of rights by shareholders (members)

The ownership structure of the rated entity and the composition of its owners are a key factor influencing the corporate governance models and practices implemented by the entity. To assess the ownership structure, it is recommended to stipulate criteria that would make it possible to evaluate the business reputation of beneficial owners (persons making decisions on the rated entity's operations), the availability and transparency of the information on beneficial owners and the system of measures to prevent corporate conflicts. The indicative list of the basic criteria that could be used to evaluate the rated entity's ownership structure is given below.

List 3.1.1. Criteria for evaluating the entity's ownership structure
Information on the ownership structure and beneficial owners is publicly available[23] (e.g., published in the reporting or on the website of the rated entity, etc.)
Beneficial owners' business reputation is assessed as positive and/or there is no credible information about any negative facts related to these persons' reputation

[18] Bank of Russia Information Letter No. IN-02-28/145, dated 28 December 2022.
[19] Bank of Russia Information Letter No. IN-06-28/18, dated 28 February 2019.
[20] Bank of Russia Information Letter No. IN-06-14/99, dated 25 December 2019.
[21] Bank of Russia Information Letter No. IN-06-28/111, dated 15 July 2020.
[22] Bank of Russia Information Letter No. IN-02-28/38, dated 24 May 2023.
[23] The evaluation of the practices applied by the rated entity for compliance with this criterion should take into account the easing effective as of the date of the evaluation with regard to the requirements of the Russian laws for disclosures and the entity's practice of limiting such disclosures (refusal to disclose information).

The influence of various groups of shareholders (members) is well-balanced, and none of the shareholders (members), by virtue of controlling equity interest, exerts influence that might damage other stakeholders[1]
There are no corporate conflicts between controlling persons or between controlling persons and third parties about equity interest in the rated entity
[1] Should not be assessed if the rated entity has a sole shareholder (member).

The element 'the entity's ownership structure' should be evaluated considering the rated entity's form of incorporation, level of concentration of ownership, and type of business. Thus, if the entity has a dispersed ownership structure[24], the assessment may only cover the entity's practice of disclosing the information on its ownership structure. With regard to financial institutions having a concentrated ownership structure, it is recommended to take into account business reputation of their founders (shareholders, members) as the core factor of the evaluation of this element.

When evaluating this element, it is recommended to take into account the reasonableness of the rated entity's practices limiting disclosures about the entity's ownership structure and beneficial owners considering the impact of geopolitical circumstances and/or sanctions on this entity. As regards entities with equity held by minority shareholders (members) or by several persons not forming a single group of persons, as well as public joint-stock companies, it is advised to assess the rated entity's practices of communication with the said persons, the relations of large shareholders (members) and/or controlling persons with minority shareholders, and the entity's openness to a dialogue with minority shareholders (members) and investors. It is recommended to pay attention to and evaluate the measures taken by the rated entity to create conditions enabling shareholders (members) to exercise their rights. Thus, where a company has a large number of minority shareholders, a positive practice is to provide an option to shareholders to fill in an electronic voting bulletin at the general meeting of shareholders.

[24] When it is impossible to identify any shareholder (member) or group of shareholders (members) directly or indirectly controlling the entity.

List 3.1.2. Criteria for evaluating the exercise of rights by shareholders (members)
The entity has an internal document stipulating the procedure for organising and holding the general meeting of shareholders (members)
In accordance with its internal document stipulating the procedure for organising and holding the general meeting of shareholders (members), the entity shall prepare the materials for the general meeting that shall include biography of all candidates to its governing bodies, the assessment results of the candidates' professional qualification, experience and skills for compliance with the entity's current and expected needs
The entity discloses[25] the information on its auditor, the description of the selection criteria, compliance with the independence and integrity criteria and remuneration paid for audit and non-audit services
The entity provides accessible means of communication with shareholders (members) (e.g., a hotline or an online forum)
The entity has an internal document stipulating its dividend policy approved by its board of directors (supervisory board) (or by its general meeting of shareholders (members) if the entity does not have the board) and available on its website. The dividend policy sets the rules for determining the proportion of net profit paid out as dividends, the conditions where dividend payments are announced, the sources for dividend payments, and the procedure for calculating dividend amounts approved by the entity in addition to the restrictions on dividend payments established by law
The frequency of dividend payments [26]
The practice of dividend payments complies with the entity's dividend policy

3.2. The entity's governing bodies

The evaluation of this element should take into account the rated entity's form of incorporation, ownership structure and the scale of its operations, as well as the requirements of Russian laws for the entity's governing bodies. To evaluate the role and work of the entity's **board of directors (supervisory board)** (if the entity has

[25] The evaluation of the practices applied by the rated entity for compliance with this criterion should take into account the easing effective as of the date of the evaluation with regard to the requirements of the Russian laws for disclosures and the entity's practice of limiting such disclosures (refusal to disclose information).

[26] To be assessed in combination with the rated entity's financial position and strategy.

this board), it is recommended to determine a range of criteria making it possible to evaluate its role in the governance of the rated entity, the sufficiency of the number of its members, overall competencies, business reputation of the members of the board of directors (supervisory board), and the extent of their involvement in the entity's activities. The indicative list of the basic criteria that could be used to evaluate the entity's governing bodies is given below.

List 3.2.1. Criteria for evaluating the role and work of the board of directors (supervisory board)
The entity has an approved internal document stipulating the rights and duties of the board of directors (supervisory board) and the procedure for preparing and holding meetings of the board of directors (supervisory board)
The number of members in the board of directors (supervisory board) correlates with the scale of the entity's business[27]
The board of directors (supervisory board) is chaired by a non-executive director
The board of directors (supervisory board) holds its meetings when needed in accordance with the approved work plan, but at least six times a year
The board of directors (supervisory board) has an audit committee
The composition of the audit committee, including the participation of independent directors in the committee, is in line with the best corporate governance practice (the audit committee includes only independent directors; the majority of the audit committee members are independent directors and the others are not a sole executive body or/and members of a collective executive body; the audit committee is chaired by an independent director)
The board of directors (supervisory board) has a sustainable development committee or pursuant to the entity's internal documents, the integration of ESG factors and sustainability issues are within the competence of another committee (e.g., a strategy committee) of the board of directors (supervisory board)
The entity carries out an assessment (self-assessment) to measure performance of the board of directors (supervisory board)

[27] The number of members in the board of directors (supervisory board) influences the efficiency of the organisation of its work, including the opportunity to form committees of the board of directors (supervisory board).

As regards entities with equity held by minority shareholders (members) or by several persons not forming a single group of persons, as well as public joint-stock companies and large financial institutions, it is advised to assess whether the rated entity implements such practices as participation of independent directors in the work of the board of directors (supervisory board) and how significantly they influence the work and decisions of the board of directors (supervisory board), as well as whether the entity carries out an independent evaluation of the performance of the board of directors (supervisory board)[28] (or the assessment of its corporate governance in general). Considering the scale and sectoral and/or other specifics of the rated entity's operations and its risk profile, it is recommended to evaluate whether the work of the board of directors (supervisory board) is well-structured and balanced, namely whether there are specialised committees in the board of directors (supervisory board), such as a nomination committee, a remuneration committee, a risk management committee, and how efficiently these committees work. Evaluating the practice of organising the work of the board of directors (supervisory board), it is recommended to pay attention to the format of its meetings. Thus, the preferred method for making decisions is a meeting (joint participation (in-person or remotely) to discuss the questions on the agenda and make decisions on the questions put to vote) enabling members of the board of directors (supervisory board) to discuss the questions on the agenda and hold a constructive discussion. In addition, it is advised to take into account how regularly members of the board of directors (supervisory board) participate in meetings of the board of directors (supervisory board) and the committees where they are members.

To evaluate the role of the board of directors (supervisory board) in ensuring sustainable development, it is advised to assess the rated entity's practices (procedures) implemented with the participation and/or predominantly with the participation of the board of directors (supervisory board) in the consideration of

[28] The Corporate Governance Code recommends that entities should engage a third-party firm (consultant) on a regular basis at least every three years to carry out an independent assessment of the quality of work of the board of directors (supervisory board).

such issues as information technologies, cyber security, human capital management and sustainability priorities of the entity.

To assess the role and performance of the entity's **executive governing bodies** (a sole executive body and a collective executive body[29]), it is recommended to determine a range of criteria for evaluating their role in corporate governance, the overall competencies and business reputation of the sole executive body and members of the collective executive body, as well as – for entities having a concentrated ownership structure – the extent of their autonomy in making decisions on the questions within their competence; for entities having a concentrated ownership structure and the board of directors (supervisory board) – the accountability of the executive bodies. The indicative list of the basic criteria that could be used to evaluate the practices of forming executive bodies is given below.

List 3.2.2. Criteria for evaluating the role and work of executive governing bodies
The entity has an approved internal document regulating the work of its executive bodies
s collective executive body includes a person having sustainable development 'The entity competencies
The board of directors (supervisory board) has the powers stipulated in the charter to make decisions on appointments and dismissals and on specifying contractual terms for members of executive bodies

When assessing the practices of forming executive bodies, it is recommended to take into account whether the rated entity implements procedures for evaluating the professional qualification, experience and skills of members of its executive bodies, as well as the extent of involvement of the board of directors in the consideration of the questions related to the formation of the entity's executive bodies (e.g., whether the board of directors (supervisory board) and/or the nomination board considers the results of this evaluation).

[29] If any.

When evaluating how efficiently the board of directors (supervisory board) and executive governing bodies perform their functions and exercise their powers, it is recommended to take into account the assessment of the elements 'Strategic management', 'Risk management' and 'Data disclosure', as well as – for financial institutions – the element 'Responsible investment policy'.

3.3. Strategic management

To assess the rated entity's strategic management practices, it is recommended to determine a range of criteria making it possible to evaluate the entity's strategic vision, planning horizons, compliance with the approved strategy and timeliness of responding to external challenges. Considering the high uncertainty of the external environment, the entity's planning horizons should be evaluated taking into account the assessment of the entity's risk management practices. If the entity does not have a strategy for over three years, it is not recommended to qualify this as a negative determinant influencing the evaluation of the entity's strategic management. Nevertheless, if the entity does not have an approved strategy, this is one of the determinants decreasing the result of the evaluation of the G pillar in general, including where the practices within the elements 'Governing bodies' and 'Risk management' are evaluated as adequate. The indicative list of the basic criteria that could be used to evaluate the entity's strategic management practices is given below.

List 3.3.1. Criteria for evaluating strategic management
The entity's strategy was approved by its board of directors (supervisory board) (or by its general meeting of shareholders (members) if the entity does not have the board)
s strategy stipulates the main goals of its operations, key risks and opportunities, 'The entity including those related to sustainable development
The time horizon of the strategy
The entity's strategy specifies possible alternative development scenario

List 3.3.1. Criteria for evaluating strategic management
The entity discloses[30] its strategy or its main provisions on its website
s strategy specifies measurable targets and interim targets of the implementation of ’The entity the strategy, including those related to sustainable development
The entity’s strategy determines its target contribution to the achievement of the sustainable development goals, and/or the goals of the Paris Agreement on climate change, and/or the national goals stipulated in the national strategic planning documents and takes into account risks and opportunities related to ESG factors
The entity has developed a strategy for reducing negative environmental impact of its operations
The entity’s board of directors (supervisory board) considers questions associated with the progress of implementation and the update of its strategy, and the achievement of the sustainable development goals and targets
Implementation of the strategy by the entity (e.g., compliance of the projects (measures) underway with the entity’s approved strategic development priorities)

3.4. Remuneration system

To assess the rated entity’s remuneration system, it is recommended to determine a range of criteria making it possible to evaluate whether the remuneration system is focused on achieving the entity’s long-term strategic development goals, as well as its financial stability and efficient risk management system. If the entity does not have an officially established remuneration system, this is one of the determinants decreasing the result of the G pillar evaluation in general, including where the practices within the elements ‘Governing bodies’ and ‘Risk management’ are assessed as adequate. The indicative list of the basic criteria that could be used to evaluate the entity’s remuneration system is given below.

List 3.4.1. Criteria for evaluating the remuneration system
The entity has an approved internal document (documents) stipulating its remuneration and compensation policy for members of the entity’s board of directors (supervisory board)

[30] The evaluation of the practices applied by the rated entity for compliance with this criterion should take into account the easing effective as of the date of the evaluation with regard to the requirements of the Russian laws for disclosures and the entity’s practice of limiting such disclosures (refusal to disclose information).

List 3.4.1. Criteria for evaluating the remuneration system
The entity’s board of directors (supervisory board) (or the general meeting of shareholders (members) if the rated entity does not have the board) approved a remuneration policy for executive bodies
The entity has an approved internal document (documents) stipulating its remuneration and compensation policy for the entity’s executive bodies
Information on the entity’s approaches to establishing and revising the remuneration system for the board of directors (supervisory board), executive bodiesand other key executives is available[31] on the entity’s website

When evaluating this element, it is recommended to take into account that the best corporate governance practice is to introduce a remuneration policy for not only executive bodies, but also other key executives of a company (e.g., persons making decisions on its operations and transactions which might affect the stability of the company’s functioning or the emergence of situations that might threaten the interests of its stakeholders (employees responsible for risk acceptance) and the persons performing control functions.

When assessing the rated entity’s remuneration system, it is also recommended to pay attention to the entity’s practice of revising the remuneration system for its executive bodies and other key executives in case of changes in the entity’s development strategy, significant alterations in the conditions where the entity is doing business, its risk profile and other factors.

The indicative list of the basic criteria that could be used to evaluate the entity’s practices of remuneration of members of the board of directors (supervisory board) (if any) is given below.

[31] The evaluation of the practices applied by the rated entity for compliance with this criterion should take into account the easing effective as of the date of the evaluation with regard to the requirements of the Russian laws for disclosures and the entity’s practice of limiting such disclosures (refusal to disclose information).

List 3.4.2. Criteria for evaluating the practice of remuneration of the board of directors (supervisory board)
The entity predominantly pays fixed annual remunerations to members of the board of directors (supervisory board). The amount of remunerations due to members of the board of directors (supervisory board) does not depend on the entity’s performance
Information on all types of remunerations to members of the board of directors (supervisory board) is disclosed in the entity’s reports that are publicly available[32]

If the entity does not have an officially established remuneration system for the board of directors (supervisory board) as well as does not apply the practice of remuneration of members of the board of directors (supervisory board), this is one of the factors decreasing the result of the evaluation of the element ‘Governing bodies’. The indicative list of the basic criteria that could be used to evaluate the entity’s practices of remuneration of its executive bodies and other key executives is given below.

List 3.4.3. Criteria for evaluating the practices of remuneration of the entity’s executive bodies and other key executives
Remuneration policy (policies) stipulates (stipulate) transparent mechanisms for calculating remunerations payable to members of the entity’s executive bodies and other key executives and regulates (regulate) other payments, benefits and privileges provided to the above persons
The entity has an established procedure for calculating remunerations payable to members of its executive bodies considering the entity’s performance and their personal contribution to this performance (quantitative and qualitative characteristics of the effectiveness and efficiency of the entity’s operations, profitability, accepted risks and so on, their targets and admissible deviations from the targets) [33]

[32] The evaluation of the practices applied by the rated entity for compliance with this criterion should take into account the easing effective as of the date of the evaluation with regard to the requirements of the Russian laws for disclosures and the rated entity’s practice of limiting such disclosures (refusal to disclose information).

[33] It is advised to evaluate the ratio between the fixed and variable components of remunerations, the use of the practices of deferred payment (payment in instalments) of the variable component of remunerations considering the entity’s performance, as well as the practice of setting a deferral period for paying the variable component of remunerations (incentives).

List 3.4.3. Criteria for evaluating the practices of remuneration of the entity's executive bodies and other key executives
The entity's remuneration system for its executive bodies and other key executives comprises key performance indicators creating material incentives to achieve the sustainable development goals and targets that are among the entity's priorities
Information on the amount of remunerations payable to the executive bodies is disclosed in the entity's reports that are publicly available[34]

The evaluation of the practice of disclosing information on the amount of remunerations payable to executive bodies should take into account that the best corporate governance practice is to disclose information on individual remunerations payable to executives. If the rated entity does not have remuneration system mechanisms aimed at preventing and discouraging the acceptance by the entity's executive bodies and employees of excessively high risks in the entity's operations, violations of the effective laws and the entity's internal documents, this is one of the determinants decreasing the result of the evaluation of the elements 'Remuneration system' and 'Risk management' as adequate.

3.5. Risk management, internal control and internal audit

This element should be evaluated considering the scale and sectoral and/or other specifics of the rated entity's operations, the requirements of Russian law applicable to the entity that regulate its risk management, internal control and internal audit procedures. To assess the entity's risk management practices, it is recommended to determine a range of criteria for evaluating the level of interest of the entity's founders (shareholders, members) and governing bodies in risk analysis, system-level risk management and risk management integration into the entity's strategic management processes, management decision making and business processes. The indicative list of the basic criteria that could be used to evaluate the entity's risk management and internal control practices is given below.

[34] The evaluation of the practices applied by the rated entity for compliance with this criterion should take into account the easing effective as of the date of the evaluation with regard to the requirements of the Russian laws for disclosures and the entity's practice of limiting such disclosures (refusal to disclose information).

List 3.5.1. Criteria for evaluating risk management and internal control practices
The entity has an approved internal document (documents) stipulating its risk management and internal control policy
The entity's risk management and internal control principles and approaches were determined by its board of directors (supervisory board) (or by its general meeting of shareholders (members) if the entity does not have the board) and stipulated in the entity's internal documents establishing its risk management and internal control policy
The entity appointed an officer (officers) / created a structural unit (structural units) responsible for organising and coordinating the risk management and internal control processes
The entity's board of directors (supervisory board) has a committee that is in charge of the consideration of risk management and internal control issues
The entity provides secure, confidential and accessible means of communication (a hotline) to notify the board of directors (supervisory board) or the board of directors' audit committee and/or internal auditor of detected violations of law, internal procedures and code of ethics provisions
The entity's board of directors (supervisory board) (or its general meeting of shareholders (members) if the entity does not have the board) determined the level of risk that the entity is ready to accept (risk appetite)
ESG risk identification, assessment and management processes are integrated into the risk management system
The entity takes into account risk analysis results when determining its business indicators and key performance indicators
The entity has an approved procedure for evaluating the effectiveness of risk management and internal control
The entity's board of directors (supervisory board) (or its general meeting of shareholders (members) if the entity does not have the board) at least annually considers the results of the evaluation of risk management and internal control effectiveness
The entity's internal auditor carries out an annual evaluation of risk management and internal control effectiveness
The entity carried out an independent external assessment of risk management effectiveness (the maturity level of risk management) at least once over the past three calendar years

List 3.5.1. Criteria for evaluating risk management and internal control practices
The entity discloses[35] the information on risk management (e.g., in its annual report, financial statements, publicly available risk management policy, risk appetite statement) and the description of the entity's internal control system

The evaluation of the rated entity's approaches to determining risk appetite should take into account how precisely the entity set the level of its risk appetite (a combination of quantitative and qualitative indicators) and whether the entity established procedures for revising the level of risk appetite. If the entity does not have practices for determining the level of risk appetite, it is recommended to explore other alternative risk management practices, e.g., establishment by the entity's board of directors (supervisory board) (or by its general meeting of shareholders (members) if the entity does not have the board) of the limits and criteria for decision making by the executive bodies. In addition, in the course of the evaluation, it is advised to analyse risk events exceeding the limit of risk appetite and other significant incidents occurred in the entity over the past three years.

When evaluating this element, it is recommended to take into account that the best corporate governance practice is to carry out an annual evaluation of risk management and internal control effectiveness and an independent external assessment of risk management effectiveness (at least every three years). It is advised to consider whether the entity took into account the results of an internal and/or external assessment in its operations, including the elimination of weaknesses revealed in its risk management and internal control system.

The indicative list of the basic criteria that could be used to evaluate the entity's internal control practices is given below.

List 3.5.2. Criteria for evaluating internal control practices
The entity ensures independence of its internal auditor (the head of the internal audit division)

[35] The evaluation of the practices applied by the rated entity for compliance with this criterion should take into account the easing effective as of the date of the evaluation with regard to the requirements of the Russian laws for disclosures and the entity's practice of limiting such disclosures (refusal to disclose information).

List 3.5.2. Criteria for evaluating internal control practices
The entity's internal audit policy was approved by its board of directors (supervisory board) (or by its general meeting of shareholders (members) if the entity does not have the board)
The entity's internal documents establish the procedure and deadlines for the submission of the report by the internal auditor (the head of the internal audit division) on the results of inspections, including compliance with the internal auditing plan, to the board of directors (supervisory board) (or the general meeting of shareholders (members) if the entity does not have the board)

The evaluation of independence of its internal auditor (the head of the internal audit division) should be based on the following requirements: the internal auditing functions shall not be combined with any other functions beyond the area of internal auditing in the entity and/or other entities of a group; the internal auditor is appointed and dismissed based on the decision of the entity's board of directors (supervisory board) (or its general meeting of shareholders (members) if the entity does not have the board); and the remuneration due to the internal auditor is determined by the entity's board of directors (supervisory board) (or its general meeting of shareholders (members) if the entity does not have the board). In addition, it is essential to take into account the conditions limiting the internal auditor's independence, e.g., the internal auditor's work in the entity's executive bodies or as the head of the entity's business units or structural units responsible for financial and taxation issues during the three years preceding the appointment of the internal auditor to the current position.

If the entity incorporated in a form other than a public company does not have an internal audit function, it is not recommended to qualify this as a negative determinant influencing the evaluation of the element 'Risk management'. It is essential to consider other practices applied by the entity that could prove that the entity has a risk management system. However, if the officer or the structural unit responsible for internal audit (if the entity has the internal audit function) reports and is functionally subordinate to the entity's executive governing bodies, this is one of the factors nullifying the significance and effectiveness of internal audit.

3.6. Data disclosure

This element should be evaluated considering the scale of the rated entity's activity, the requirements[36] of the Russian laws on data disclosure applicable to the entity and other external factors limiting[37] disclosures. The indicative list of the basic criteria that could be used[38] to evaluate the entity's disclosure practices is given below.

List 3.6.1. Criteria for evaluating data disclosure
The scope and time of the entity's disclosures are in line with Russian law and the data is available to the general public
The entity's board of directors (supervisory board) (or the governing body responsible for this issue if the entity does not have the board) approved the communication policy disclosed on the entity's website
The entity stipulated the approaches to disclosing the information about events (actions) having a significant effect on its securities value or prices in addition to information required to be disclosed according to law
The information on members of the entity's executive bodies, board of directors (supervisory board), committees of the board of directors is disclosed on the entity's website
The information that is sufficient to make an opinion on personal and professional skills of members of the board of directors (supervisory board), e.g., their education, qualification, experience, the date of their first election to the entity's board of directors (supervisory board), their membership in other entities' boards of directors (supervisory boards), the positions held by them at least for the past five years at other legal entities' governing bodies, is publicly available on the entity's website and/or in its reports
in its business or the business of the planned alterations The entity discloses the information on group

[36] Considering the easing of the said requirements granted by the Russian Government and/or other competent authorities effective as of the date of the evaluation.

[37] If the entity limits its disclosures, the evaluation of this element should take into account the reasonableness of limiting the disclosures (refusal to disclose information) considering the impact of geopolitical circumstances and/or sanctions on this entity.

[38] The evaluation of the practices applied by the rated entity for compliance with this criterion should take into account the easing effective as of the date of the evaluation with regard to the requirements of the Russian laws for disclosures and the entity's practice of limiting such disclosures (refusal to disclose information).

List 3.6.1. Criteria for evaluating data disclosure
The entity's website discloses the information on companies under the entity's control that are of significant importance for the entity
The entity discloses the description of its major sustainable development risks and opportunities and the information on how the entity manages them[39]
The entity's website discloses its sustainability report[2]
[2] The entity may independently determine the scope, format and form of its sustainability disclosures depending on the objectives of these disclosures and the scale and nature of the entity's business in accordance with the disclosure requirements established by law. Nevertheless, public joint-stock companies are advised to disclose the information on sustainable development in their annual reports pursuant to Bank of Russia Information Letter No. IN-06-28/49, dated 12 July 2021, 'On Recommendations for Public Joint-stock Companies to Disclose Non-financial Information Regarding Their Operations'. The evaluation of this criterion should also take into account the quality, timeliness and frequency of disclosures.

The evaluation of this element should take into account the entity's practices and methods of communication with shareholders and investors, e.g., the availability of a special section on the entity's website providing answers to the questions frequently asked by shareholders (members) and investors or a special section publishing a regularly updated schedule of the entity's corporate events.

3.7. Responsible investment policy

Responsible investment practices should be evaluated for financial institutions acting as institutional investors and trustees of the assets of institutional investors. Responsible investment means investment in companies' issue-grade securities when an investor seeks to, among other things, contribute to the companies' sustainable development in order to increase returns on its clients' and beneficiaries' investment while complying with the acceptable risk level and considers the ESG factors and the related risks and opportunities arising for the

[39] The evaluation of the practices applied by the rated entity for compliance with this criterion should take into account the easing effective as of the date of the evaluation with regard to the requirements of the Russian laws for disclosures and the entity's practice of limiting such disclosures (refusal to disclose information).

investees in the course of investment activity, that is based on the assessment and monitoring of the investees, the exercise of shareholder rights and communication with the companies in a fair manner, and the disclosure by the investor of the information on the responsible investment approaches and policies applied by the investor. Responsible investment is aimed at mitigating risks and increasing returns on investment in the long term.

This element should be evaluated considering the scale and nature of the entity's activity in the financial market, as well as in combination with the entity's sustainability practices. The entity's investment policies should be evaluated in addition to the basic elements of the G pillar. The indicative list of the basic criteria that could be used to evaluate the entity's responsible investment policy is given below.

List 3.7.1. Criteria for evaluating responsible investment policy
The entity discloses its approaches to responsible investment on its website
The entity's approaches to responsible investment are stipulated in its responsible investment policy
The entity's website discloses the declaration of compliance with the Bank of Russia's Recommendations for the Implementation of Responsible Investment Principles[40]

The evaluation of responsible investment practices should take into account whether the entity's approaches comply with the Bank of Russia's Recommendations for the Implementation of Responsible Investment Principle.[41]

4. Evaluation of the pillar 'Environment'

It is essential to evaluate the pillar 'Environment' relying on the double materiality principle, that is, to consider two interrelated aspects: 1) the impact of the entity's business on the environment and 2) the influence of the environment on the entity's business.

[40] Bank of Russia Information Letter No. IN-06-28/111, dated 15 July 2020.
[41] See footnote 40.

The evaluation of the first aspect should reflect the opinion on the entity's profile obtained by assessing the characteristics of its environmental impact over the period under review. The evaluation of the second aspect should reflect the opinion on the entity's exposure to the environment-related risks and opportunities and the entity's capability to manage them over a time horizon of at least three years ahead. The risk assessment could also be deeper if risks are divided into short-, medium- and long-term ones, as provided for in the TCFD.[42]

When the evaluation is done following the double materiality principle, certain indicators that should be used to analyse the entity's exposure to the environment-related risks might overlap with the indicators used to assess the profile of the entity's environmental impact. However, in the former case, the indicators should be evaluated to measure the entity's environmental impact, and, in the latter case – to identify the entity's financial exposure.[43] Accordingly, the materiality of the same indicator for the two aspects may differ.

The entity's E pillar should be evaluated considering the following elements:

- climate;
- energy consumption and energy efficiency;
- air;
- water resources;
- waste management;
- land use;
- forests and biodiversity;
- environmental management;
- environmental protection expenditures;
- supply chains; and
- responsible financing.

[42] Recommendations of the Task Force on Climate-related Financial Disclosures (Final Report, 2017).

[43] For example, the indicator 'Carbon intensity for scopes' (tCO_2e per unit of output) could be evaluated in terms of both potential financial losses from carbon footprint charges and the entity's contribution to climate change.

The entity's final score for the E component is the weighted evaluation of all the elements reviewed. The weight of a particular element should be determined considering the entity's sectoral specifics and putting a special focus on individual elements for non-financial organisations, including 'Climate', 'Environmental protection expenditures' and 'Environmental management'. As regards financial institutions, the highest weight should be given to the evaluation of the element 'Responsible financing'.

To evaluate each of the elements, it is recommended to specify the list of quantitative and qualitative indicators. They should be selected considering the scale and specifics of the entity's business and help form a professional opinion regarding the materiality of the entity's environmental impact and its exposure to risks. In addition, the selected indicators should make it possible to evaluate both the entity's compliance with the environmental law and the entity's environmental protection initiatives.

Besides, in the course of the evaluation, it is recommended to:

- take into account, when analysing quantitative indicators, both absolute indicators to assess the extent of the impact and relative indicators to compare them across entities of various sizes;
- use sectoral indicators for making intrasectoral and intersectoral comparisons; and
- consider the entity's quantitative targets stipulated in its policy / strategy / roadmap and the entity's progress towards their achievement.

The list of the indicators is merely advisable and could be supplemented and adjusted by ESG ratings providers. All quantitative indicators should be given for at least the past three years, where possible.

4.1. Climate

List 4.1. Evaluation criteria
Absolute GHG emissions[44] (Scope 1, Scope 2, Scope 3)[45] (tCO2e) **AND/OR** Carbon intensity for Scopes (tCO2e per unit of output[46] or tCO2e per financial unit[47])
Availability of a climate policy / strategy / roadmap / plan (yes/no) *The evaluation of this indicator should take into account whether the document stipulates GHG reduction targets and/or carbon neutrality (net-zero) targets, including the base and target years, and the scope of emissions; the list and description of measures aimed at achieving the GHG reduction targets (e.g., upgrade of production facilities, use of renewables, etc.), including the planned amount of investment; and targets for the development and implementation of climate projects and the use of carbon credits from the implementation of climate projects according to the established emissions allowances.*
Climate risk management (yes/no) *The evaluation of this indicator should take into account whether the entity's management approaches provide for the analysis of its exposure to (physical and transition) climate risks and its climate-related opportunities; the use of the scenario analysis based on IPCC models[48] to assess the materiality of climate risks; and the development and implementation of measures protecting the entity's assets located in an area of potential materialisation of physical climate risks.*
Disclosure of climate-related information in accordance with international recommendations, e.g., the TCFD recommendations (yes/no)
Availability of assets in an area of potential materialisation of physical climate risks (drought, flooding, permafrost thaw, wildfire, etc.) (yes/no)

4.2. Energy consumption and energy efficiency

List 4.2. Evaluation criteria
Total energy consumption / production (broken down by the source) (joules)

[44] The recommended minimum is to evaluate Scope 1 emissions.

[45] Scope 1 emissions are direct greenhouse gas (GHG) emissions that occur from sources controlled or owned by an entity, e.g., emissions associated with the manufacturing of the entity's products and the entity's own motor fleet.

Scope 2 emissions are indirect GHG emissions from the generation of purchased and used electricity and heat.

Scope 3 emissions are all other indirect GHG emissions (not included in Scope 2) that occur in the entity's value chain, including both upstream and downstream emissions, e.g., emissions associated with product transportation and processing, business travel, franchises, investment, etc.

[46] Hereinafter, for the analysis of the indicator over time and intrasectoral comparison.

[47] Hereinafter, for intrasectoral and intersectoral comparisons of all rated entities.

[48] Intergovernmental Panel on Climate Change (IPCC).

AND/OR Intensity of energy consumption / production (joules per unit of output or joules per financial unit)
Total energy consumption / production from low-carbon energy generation[49] (joules)
Availability of an energy efficiency policy / strategy / roadmap / plan (yes/no) *The evaluation of this indicator should take into account whether the document stipulates target increases in the use of low-carbon energy; target increases in the percentage of low-carbon energy in total energy consumption; and target increases in energy efficiency / energy saving.*

4.3. Air

List 4.3. Evaluation criteria
Actual gross emissions of pollutants into the air (tonnes) **AND/OR** Pollutant emissions intensity in the air (tonnes per unit of output or tonnes per financial unit) *To analyse the entity's profile, it is recommended to also consider its actual gross emissions of pollutants broken down by the key pollutants. In order to evaluate the entity's business for compliance with the supervisory requirements, it is also advised to compare its actual gross emissions into the air against the approved pollutant emission limits[50] (tonnes).*
Availability of a policy / strategy / roadmap / plan for reducing negative impact on the atmosphere (yes/no) *The evaluation of this indicator should take into account whether the document stipulates target reductions in pollutant emissions into the air; the list and description of measures aimed at achieving the pollutant emission reduction targets (e.g., upgrade of production facilities, including deployment of the best available technologies (BATs), use of gas cleaning systems, etc.); and the planned amount of investment.*
There are no violations of the approved pollutant emission limits (yes/no)
The entity carries out monitoring of the air according to the procedure and within the scope established by the industrial environmental control (IEC) programme (yes/no)

[49] Nuclear energy, hydropower, solar energy, wind energy, etc.

[50] This indicator is calculated separately for each environmental impact object owned by the entity. Similarly to the indicator 'Actual gross emissions of pollutants into the air' measured as total pollutant emissions from the entity's environmental impact objects, ESG ratings providers are recommended to take into account the total limits on pollutant emissions into the air.

To evaluate the entity's additional environmental protection measures, ESG ratings providers are advised to consider whether the entity carries out air monitoring exceeding the scope required by the IEC programme.

4.4. Water resources

List 4.4. Evaluation criteria
Total water consumption (cubic metres)
Water consumption for entity's own needs (cubic metres) **AND/OR** Intensity of water consumption (cubic metres per unit of output)
Wastewater discharge into surface water (cubic metres) *Additionally, to analyse the entity's profile, it is suggested to take into account the quality of wastewater discharge (e.g., clean according to quality standards, purified according to quality standards), and to evaluate the entity's business for compliance with the supervisory requirements, it is advised to compare the actual discharge of wastewater pollutants into water bodies against the established limits on wastewater pollutant discharge.*[51]
Water recirculation rate in total water consumption for production needs (percent)
Availability of a policy / strategy / roadmap / plan for reducing negative impact on the water resources (yes/no) *The evaluation of this indicator should take into account whether the document stipulates target reductions in water consumption intensity; target reductions in the discharge of wastewater pollutants into water bodies; goals for transition to closed water systems; the list and description of measures aimed at achieving the target reductions in the impact on water resources (e.g., upgrade of production facilities, including deployment of the BATs, construction of new or upgrade of existing treatment facilities, etc.); and the planned amount of investment.*
There are no violations of the approved wastewater pollutants discharge limits (yes/no)
The entity carries out monitoring of water bodies according to the procedure and within the scope established by the IEC programme (yes/no) *To evaluate the entity's additional environment protection measures, ESG ratings providers are advised to consider whether the entity carries out water monitoring exceeding the scope required by the IEC programme.*

[51] This indicator is calculated separately for each environmental impact object owned by the entity. Similarly to the indicator 'Actual discharge of wastewater pollutants into water bodies' measured as the total pollutant discharge from the entity's environmental impact objects, ESG ratings providers are recommended to take into account the total limits on wastewater pollutant discharges.

4.5. Waste management

List 4.5. Evaluation criteria
Waste generation (tonnes) *To analyse the entity's profile, it is recommended to also consider its waste generation broken down by the hazard class. In order to evaluate the entity's business for compliance with the supervisory requirements, it is also advised to compare its waste generation against the established waste generation limits.*[52]
Waste by the treatment method[53] (tonnes or percent)
Availability of a waste management policy / strategy / roadmap / plan (yes/no) *The evaluation of this indicator should take into account whether the document stipulates target reductions in waste generation; goals for the implementation of the circular economy principles; goals for transition to separate waste collection; the list and description of measures aimed at reducing waste generation (e.g., upgrade of production facilities, including deployment of the BATs, etc.); and the planned amount of investment.*
There are no violations of the approved waste generation and disposal limits (yes/no)

4.6. Land use

List 4.6. Evaluation criteria
Land pollution over the year (hectares)
Land restoration over the year (for arable / farm / wood lands) (hectares)
Land polluted as of the end of the year (hectares)
Availability of an efficient land use policy / strategy / roadmap / plan (yes/no) *The evaluation of this indicator should take into account whether the document stipulates target reductions in land pollution and targets for land restoration and efficient land use; and the list and description of measures aimed at achieving the targets for efficient land use.*

[52] This indicator is calculated separately for each environmental impact object owned by the entity. Similarly to the indicator 'Waste generation' measured as total waste generated by the entity's environmental impact objects, ESG ratings providers are recommended to take into account the total waste generation and disposal limits.

[53] Pursuant to Article 1 of Federal Law No. 89-FZ, dated 24 June 1998, 'On Production and Consumption Waste', waste management is waste collection, accumulation, transportation, treatment, recycling, neutralisation and disposal.

4.7. Forests and biodiversity

List 4.7. Evaluation criteria
Land used for the entity's business (hectares)
Area of deforestation over the year (hectares)
Area of reforestation work (hectares)
Number of protected and rare flora and fauna species[54] in the area of the entity's direct (species identified in the entity's area) and indirect impact
Presence of rare ecosystems, animal species and plants–biodiversity indicators[55] inhabiting the areas of the entity's direct, indirect and cumulative impact (yes/no)
The entity has developed and is implementing a biodiversity conservation and ecosystem services programme (yes/no) *The evaluation of this indicator should take into account whether the programme provides for the development of the indicators of the state of biodiversity and the efficiency of biodiversity conservation measures; regular monitoring of the state of biodiversity; conclusion of long-term biodiversity conservation agreements with non-profit and environmental organisations.*
The entity carries out assessments of biodiversity risks (yes/no)
The entity uses resources and ecosystem services that might become unavailable due to materialisation of environmental risks (yes/no)
The entity has a policy for diversifying / substituting the resources, the receipt of which is associated with a material negative impact on the environment, biodiversity and ecosystem services, and keeps records of such resources (yes/no)

4.8. Environmental management

List 4.8. Evaluation criteria
The entity has an environmental management system and received the certificate of conformity[56] (yes/no)
The entity regularly discloses environmental information pursuant to the national and international requirements and standards (yes/no)

[54] The category 'rare and endangered species' includes the species listed in the Red Data Book of the Russian Federation, the red data books of the constituent territories of the Russian Federation, the CIS Red Data Book, the CITES Appendices, and appendices to international treaties.

[55] Biodiversity indicators are plant species responding to environment changes through their presence or absence, changes in their appearance, chemical composition and properties.

[56] In accordance with National Standard of the Russian Federation GOST R ISO 14001-2016 'Environmental Management Systems. Requirements and Guidelines'.

The entity has organised and carries out industrial environmental control[57] (yes/no)
The entity has an internal quarterly / annual audit of its operations / the availability and relevance of environmental documents, permits[58] and contracts (e.g., waste removal contracts) (yes/no)
The entity had accidents and/or incidents negatively impacting the environment (yes/no) *Additionally, to analyse the entity's profile, it is suggested to evaluate financial losses from the accidents.*
The entity has orders from the control (supervisory) authorities, including orders that have not been fulfilled yet, to eliminate violations of environmental law (yes/no) *Additionally, to analyse the entity's profile, it is suggested to evaluate financial losses associated with the control (supervisory) authorities' orders to eliminate violations of environmental law.*
Damage risk category[59] of an environmental impact object *The evaluation of this indicator should take into account whether the control (supervisory) authorities have increased / decreased the damage risk category of a particular environmental impact object.*[60]

4.9. Environmental protection expenditures

List 4.9. Evaluation criteria
Environmental protection expenditures (rubles) *To analyse the entity's profile, it is recommended to also consider environmental protection expenditures broken down by the type of environmental protection activities.*[61]
Charges for the environmental impact (rubles) *Additionally, to evaluate the entity's business for compliance with the supervisory requirements, it is suggested to take into account its payments for pollutant emissions, pollutant discharges and production*

[57] In accordance with Order of the Ministry of Natural Resources and Environment of the Russian Federation No. 109, dated 18 February 2022, 'On Approving the Requirements for the Content of Industrial Environmental Control Programmes and the Procedure and Deadlines for Submitting Reports on Organising Industrial Environmental Control and its Results'.

[58] In accordance with the list given in Clause 3 of Resolution of the Government of the Russian Federation No. 1096, dated 30 June 2021, 'On Federal State Environmental Control (Supervision)' (together with the Regulation 'On Federal State Environmental Control (Supervision)').

[59] The risk categories and the criteria for classifying risks are stipulated in Resolution of the Government of the Russian Federation No. 1096, dated 30 June 2021, 'On Federal State Environmental Control (Supervision)' (together with the Regulation 'On Federal State Environmental Control (Supervision)').

[60] See footnote 59.

[61] In accordance with Order of the Federal State Statistics Service No. 530, dated 29 July 2022, 'On Approving Federal Statistical Forms for Organising Federal Statistical Monitoring of the Agricultural Sector and the Environment'. Form No. 4-OS 'Information on Current Environmental Expenditures'.

waste disposal exceeding the established limits, as well as the proportion of payments for exceeding the limits in total payments for the entity's environmental impact.
Fines paid for violations of environmental law (rubles)
Compensation paid for the damage to the environment and individual components of the environment (land, water resources, forests, fauna, etc.) (rubles)

4.10. Supply chains

List 4.10. Evaluation criteria
The entity has criteria for assessing / selecting suppliers (contractors, providers) it cooperates with that take into account their environmental impact (yes/no)
The proportion of counterparties (suppliers, contractors, providers) assessed based on environmental criteria (percent of the total number of the entity's counterparties)

4.11. Responsible financing

List 4.11. Evaluation criteria
The entity is an issuer of green (adaptation) bonds, social bonds, sustainability bonds, sustainability-linked bonds, and climate transition bonds (yes/no)
The proportion of financing of green and/or adaptation projects and/or social projects (sustainability projects) in legal entities' total loan portfolio (percent) *It is recommended to use the indicator only for evaluating financial institutions.*
The portfolio's carbon footprint *To measure a portfolio's carbon footprint, it could be more relevant to adhere to the international approaches, e.g., the Partnership for Carbon Accounting Financials (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition.* *It is recommended to use the indicator only for evaluating financial institutions.*
The proportion of assets with ESG ratings (percent of the total portfolio) *It is recommended to use the indicator only for evaluating financial institutions.*
The entity has a policy aimed at reducing its portfolio's carbon footprint that stipulates the targets (yes/no) *It is recommended to use the indicator only for evaluating financial institutions.*

5. Evaluation of the pillar 'Social'

The pillar 'Social' should be evaluated considering the rated entity's form of incorporation, the scale and sectoral specifics of its business. To evaluate each element of the S component, it is recommended to specify the list of evaluation criteria that help form a professional opinion regarding the rated entity's approaches to organising particular procedures (practices) and their actual implementation.

When social issues are assessed, the following elements should be considered:

- Internal documents, including rules and procedures, regulations, policies, etc. The results will evidence the availability and quality of the basis for forming a professional opinion about the extent of the rated entity's compliance with the key social responsibility principles at the level of the documentation of related processes.
- The practical part is the evaluation of how the rated entity implements the procedures (practices) established in its internal documents, including the quantitative assessment of the entity's actual performance indicators.

5.1. Employee incentive system

The evaluation of this element should cover the entity's system of employee incentives (both financial and non-financial) helping improve labour productivity and retain employees. The evaluation should take into account the requirements of Russian law, namely the Labour Code of the Russian Federation.

When assessing the element, it is recommended to consider the entity's form of incorporation and activity type. Thus, an essential criterion for manufacturers could be the availability of health improvement and medical care programmes. As regards financial institutions, it is advised to take into account the availability, frequency and types of professional training programmes. It is recommended to rely on the indicative list of the basic criteria.

List 5.1.1. Evaluation criteria
The entity’s internal documents stipulating the procedure for calculating wages, bonuses and allowances establish clear criteria and frequency of these payments
The entity has voluntary medical insurance (VMI) programmes and other forms of medical services provided to employees, as well as other health improvement programmes (e.g., fitness centre, etc.)
The entity has advanced training and professional training programmes for employees and/or programmes for subsidising trainings
The entity has other social programmes (catering and/or food allowances, corporate kindergartens for employees’ children and/or kindergarten (nursery) allowances, financial aid programmes, corporate lending programmes, housing and transport support programmes, etc.)

When evaluating the main elements of the social package for the entity’s employees, it is also recommended to pay attention to the reliability and reputation of the entity’s insurer (the availability of a reliability rating, absence of negative information in mass media, etc.), the types and scope of completed trainings (with the engagement of third-party organisations), etc. It could be reasonable to take into account the criteria specified in List 5.1.2 among the basic quantitative criteria (the evaluations should also be broken down by the age group, gender and region).

List 5.1.2. Evaluation criteria
The ratio between employees working under fixed- and indefinite-term labour contracts
The total number and percentage of new employees hired over the period under review
The average wage at the entity (excluding top managers’ wages and taking into account the average wage across the industry / region)
The percentage of employees covered by VMI programmes and other medical care programmes over the past calendar year
The percentage of employees who completed training programmes (e.g., advanced training, professional retraining, etc.) over the past calendar year
The percentage of employees who applied for and received social benefits and compensations from the entity over the past calendar year
The total number of employees and employee turnover rates over the period under review

5.2. Equality policy

The evaluation of this element should take into account the entity’s policy aimed at ensuring equal treatment of all employees, regardless of their gender, age, race, skin colour, ethnic group, language, origin, faith, financial, marital and social status, job title, place of residence, possible disabilities, political or any other beliefs, and membership or non-membership in public associations or any other social groups. It could be reasonable to consider whether the entity adheres to the documents of the International Labour Organization, the Universal Declaration of Human Rights, etc. It is recommended to rely on the indicative list of the basic criteria.

List 5.2.1. Evaluation criteria
The entity discloses the information on the gender balance (the ratio of men to women across employee categories), the composition of the board of directors, and other metrics, as well as the explanation on gender dynamics and policy
The availability and description of the measures implemented by the entity over the period under review to eliminate cases of discrimination (if any)
The entity has mechanisms and/or channels to respond to and settle ethical issues (violations of human rights, the labour legislation or the corporate code of ethics, conflicts of interests) for employees, clients and counterparties

Besides, it is necessary to take into account the indicative list of the basic criteria that could be used to evaluate the entity’s equality policy.

List 5.2.2. Evaluation criteria
The composition of the entity’s governing bodies, with a breakdown in each of the following categories (per cent): – gender; and – age group: aged up to 35, aged 35–50, aged 50 and above.
The entity’s personnel, with a breakdown in each of the following categories of employees (per cent): – gender; and – age group: aged up to 35, aged 35–50, aged 50 and above.

The total number of cases of discrimination at work (by the number of effective court rulings) over the period under review

5.3. Labour protection

The evaluation of labour protection should take into account the procedures regulating the measures implemented by the entity to protect employees' lives and health against the impact of adverse factors and the frequency of these measures. The labour protection system shall comply with the requirements of Russian law in order to avoid or mitigate cases of occupational diseases, traumas and industrial accidents. When evaluating the availability of the service for labour protection or a competent specialist, it is recommended to pay attention to the entity's activity type and headcount. If the entity does not have an officially established labour protection system (briefings, standards, etc.) or a practice of organising labour protection, this is one of the determinants decreasing the result of the evaluation of the S pillar, especially for industrial enterprises.

List 5.3.1. Evaluation criteria
The entity has approved internal documents stipulating the labour protection procedure
The entity has a service for labour protection (including an approved internal document (documents) / job description specifying the functions of the service for labour protection or a competent specialist in labour protection)
The entity makes the labour protection information accessible for all employees
The entity gives regular trainings / briefings on labour protection at work covering its typical risks to employees' lives and health

The indicative list of quantitative factors is given below.

List 5.3.2. Evaluation criteria
The percentage of victims of industrial accidents causing temporary disability (per 1,000 employees)
The percentage of victims of industrial accidents causing severe damage to health (per 1,000 employees)

The percentage of victims of fatal industrial accidents (per 1,000 employees)
The percentage of victims of non-industrial accidents causing temporary disability (per 1,000 employees)
The percentage of victims of non-industrial accidents causing severe damage to health (per 1,000 employees)
The percentage of victims of fatal non-industrial accidents (per 1,000 employees)
The number and amount of orders / fines from the control (supervisory) authorities (if any)

The analysis of quantitative factors could additionally take into account the time component of changes in the metrics. Thus, an increase in the number of industrial accidents might result from an enhancement of the system recording such accidents, and the actual losses of working time and other resources due to employees' incapacity for work might decrease over time because of enhancement of occupational safety.

5.4. Interactions with society / third parties

The evaluation of this element should take into account the rated entity's commitment to the social responsibility principle beyond its structure, e.g., the entity's involvement in the processes aimed at addressing social problems in the regions of its operation (amounts allocated to finance programmes and projects influencing local residents' life quality, including investment in infrastructure, healthcare, education, sports, the support of indigenous minorities, charity, etc.), cooperation with counterparties who are also focusing on environmental, social and corporate development. It is recommended to rely on the indicative list of the basic criteria.

List 5.4.1. Evaluation criteria
Interactions with society
Investment in the development of public spaces / participation in social projects implemented in the regions of the entity's operation, including investment in infrastructure, healthcare, education, sports, etc.
Charity work

List 5.4.1. Evaluation criteria
Interactions with clients / suppliers
The entity has internal documents establishing the product quality and safety standards
The entity manufactures (provides) goods (services) that might be hazardous to consumers
The entity uses negative practices when selling its goods and services (selling a product / service through its misrepresentation (misselling), unethical advertising, etc.)
Collaboration with suppliers demonstrating a high level of social / environmental responsibility or a high level of corporate governance

The evaluation of the practical part of this element should take into account the ratio of social investment to the rated entity's revenues; the number of charitable and other programmes carried out over the period under review; the percentage of goods and service categories having a minimum negative impact on health and safety; the number of suppliers classified as those making a minimum actual and potential negative impact on society; the proportion of procurements from small and medium-sized businesses in the entity's total procurements, etc.

6. Aggregate evaluation

The practice of ESG ratings has been used for over 20 years, yet, as noted by IOSCO, 'there is little clarity and alignment on definitions, including on what ratings or data products intend to measure'. Such differences result in wide divergence within the ESG ratings. On average, correlation in ESG ratings assigned by various organisations is just a little higher than 50%.[62] Measurement of the same attribute using different indicators accounts for 56% of the divergence within ESG ratings. Scope and weight of attributes contribute 38% and 6% of the divergence, respectively.

The Bank of Russia believes it essential to develop a single approach that would eliminate the reasons for significant divergence within the ESG ratings.

[62] Berg F., Kölbel J. and Rigobon R. (2022). Aggregate Confusion: The Divergence of ESG Ratings. Review of Finance 26 (6): 1315–1344.

The quality of assigned ESG ratings largely depends on the disclosure of detailed methodologies and complete data by ESG ratings providers.

As to an aggregate ESG rating, its provision is a matter of discussion. On the one hand, the use of a simple weighted sum of the pillars might distort the information contained in each individual ESG pillar.[63]. On the other hand, if the numerical evaluation is complicated while the quality of raw data is low, this might have a negative effect on the transparency and quality of the rating process.[64] There is a range of solutions to address the task of the ESG portfolio optimisation. All of them are based on detailed data underlying ESG ratings. For example, methods relying on detailed data for the portfolio optimisation incorporating certain ESG scores include data envelopment analysis and reassessment of an ESG rating based on detailed data.[65]

Data envelopment analysis (DEA) offers a piece-wise linear approximation of the production frontier. Where the true frontier is not concave, the approximation using the DEA method should be improved. Besides, it is possible to apply a more general piece-wise quadratic approximation, called quadratic data envelopment analysis (QDEA). QDEA can substantially improve efficiency estimation in finite samples relative to standard DEA models. DEA or QDEA could be considered to be appropriate methods to construct an aggregate ESG rating.

To determine an ESG rating category, it is possible to rely on a rating scale and the correspondence of the final score to the level of an ESG rating. Currently, there are multiple rating scales in the market, with three and more categories in the ESG rating scale. The Bank of Russia's recommendation is to apply a balanced approach helping ESG ratings users to adequately differentiate rated entities and taking into account the specifics of the data used to make a numerical evaluation for

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[63] The Environmental, Social and Governance pillars.

[64] 'A naïve approach such as equal weighting could introduce noise that decreases financial significance and a backward-optimized approach may ignore the importance of different time frames in how ESG risks unfold.' Lee, Giese, Nagy (2020).

[65] Chen L., Zhang L., Huang J., Xiao H., Zhou Z. (2021). Social Responsibility Portfolio Optimization Incorporating ESG Criteria. Journal of Management Science and Engineering. 6 (1): 75–85.

an individual ESG pillar.[66] In particular, it is possible to use an ESG rating scale comprising seven categories.

If ESG ratings providers use an ESG rating scale, other than the proposed one, the Bank of Russia recommends that they should publish the tables showing the correspondence between the categories of any other scale and the aggregated categories of the recommended ESG rating scale for an aggregate assessment (ESG-A – high level, ESG-B – medium level, and ESG-C – low level).

Whether relying on their own ESG rating scale or the one recommended by the Bank of Russia, ESG ratings providers shall provide the description of the characteristics of rated benchmark entities who have the maximum rating in the highest category and the minimum rating in the lowest category within the sample for which the scale is used.

Table 6.1. Recommended ESG rating scale for aggregate assessment

Level / detailed category	Aggregated category
ESG-AAA	ESG-A – high level
ESG-AA	
ESG-A	
ESG-BBB	ESG-B – medium level
ESG-BB	
ESG-B	
ESG-C	ESG-C – low level

The Bank of Russia emphasises that the interpretation and, accordingly, the comparison of aggregate ESG ratings are complicated because of methodological

[66] The Environmental, Social and Governance pillars.

constraints associated with both the diverse nature of the ESG components and various methodologies for their integration into an aggregate ESG rating.[67] Considering the current conditions, the Bank of Russia believes that the best solution is to provide ESG ratings as a package service within which the ratings of each of the pillars should be the priorities, as well as to publish the scores for the elements of each of the three pillars. To make a well-informed decision, ESG ratings users need not only detailed data on the levels of ratings for individual ESG components,[68] but also the information underlying the measurements for these ratings. Where an aggregate ESG rating is constructed, another essential factor to accurately comprehend its economic sense and the perimeter of its usage is the explanation of how individual ESG components were integrated into an aggregate ESG rating and how the ESG ratings provider presents this aggregate ESG rating. In view of this, the Bank of Russia recommends that ESG ratings providers should disclose their measurements and detailed methods they use to collect, process and weigh the data, integrate individual ESG components into aggregate ESG ratings (if they are provided) and complement the publication of aggregate ESG ratings with detailed explanations of what these ESG ratings reflect according to ESG ratings providers' methodologies.

7. Glossary

Climate risks are physical and transition risks associated with the negative impact of climate change on a rated entity's business and with the measures taken by governments and regulatory authorities to prevent the negative human impact on climate.

Physical climate risks are risks associated with natural phenomena resulting from climate change. Physical climate risks are either acute or chronic. Acute risks are associated with

[67] The existing methodological constraints are widely known (Berg, Kölbel, and Rigobon, 2022). Currently, the opportunities of using both aggregate ESG ratings and ratings for individual pillars are being reviewed (Ehlers et al., 2022), (Berg et al., 2023). In addition, ESG ratings providers use new data sources, e.g., geospatial information, increasingly more frequently (Patterson et al., 2022), (Atz and Bruno, 2023), (Milekhin et al., 2022).

[68] The Environmental, Social and Governance pillars.

sudden natural disasters, while chronic risks – with persistent changes in climate characteristics and conditions.

Transition climate risks are risks associated with the transition to a low-carbon economy, including with the measures aimed at preventing climate change and taken by the governments and regulatory authorities of the countries that ratified the Paris Agreement on climate change. They include political, legal, technological, market and reputational risks.

Credit rating agency is a legal entity established as a company according to Russian law, put by the Bank of Russia on the register of credit rating agencies pursuant to Federal Law No. 222-FZ, dated 13 July 2015, 'On the Activities of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', and on Invalidating Certain Provisions of Legislative Acts of the Russian Federation', and engaged in rating activities.

ESG (sustainability) ratings provider is any legal entity providing ESG ratings or offering other publicly available data products, data and evaluations in the area of sustainable development.

ESG data are a set of raw data about an entity covering environmental, social and governance issues (including both quantitative and qualitative metrics). These data include ESG rankings (ranking lists of entities) and ESG indices (groups of entities whose quantitative evaluations of sustainability elements are within certain ranges).

ESG elements are quantitative or qualitative variables, the evaluations of which underlie the analysis of each of the ESG pillars.

ESG pillar is one of the three components (Environmental, Social and Governance) of an ESG rating.

ESG rating (sustainability rating) is a wide range of publicly available sustainability data products and evaluations. In this document, an ESG rating means a publicly available independent external opinion regarding the profile of a rated entity (company or issuer), that is, the quantitative and qualitative characteristics of its sustainability performance, as of the date of the ESG rating, as well as the rated entity's corporate governance and its exposure to sustainability risks over a time horizon from one to three years.

ESG risks (sustainability risks) are risks associated with the impact of environmental factors (including ecological and climate change-related factors), society (social factors) and corporate governance on a rated entity's business, as well as risks associated with the rated entity's impact on developments in the environment, society and the economy in general.

GHG emissions are greenhouse gas emissions into the air as a result of business and other operations over a certain period.

Greenhouse gases are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and re-emit infrared radiation.

Greenwashing is an unfair practice of reporting false or misleading information on how an entity takes into account ESG factors and/or sustainability issues in its business and/or financial product characteristics, as well as a failure to provide any or full information on the above issues to deceive consumer and receive unjustified benefits.

Rated entity is a legal entity or a public law institution that has an ESG rating.

Rating scale is a system of rating categories used for classifying rating levels. A category is represented by a letter, numeric and/or another special symbol (symbols).

Rating scores are cumulative scoring (a total score) of compliance with criteria in the course of assessment of elements.

Responsible investment is a conceptual approach to investment considering ESG factors, risks and related opportunities (created by these factors for the investees) in investment activity and in the assessment and monitoring of the investees, as well as respecting shareholders' rights and providing for communication with the companies–investees. Responsible investment for institutional investors implies fiduciary duties (based on trust) to act in good faith and reasonably on behalf of their clients and beneficiaries enhancing the reliability of and returns on investment for these persons.

Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are controlled or owned by a rated entity, e.g., emissions from the entity's own motor fleet.

Scope 2 emissions are indirect GHG emissions from the generation of purchased and used electricity and heat.

Scope 3 emissions are all indirect GHG emissions (not included in scope 2) that occur in the entity's value chain, including both upstream and downstream emissions.

Stakeholders[69] are government authorities, local governments, public law institutions, legal entities and individuals that can be interested in the results of a financial institution's operations and value creation and/or can materially impact the financial entity's business, products and services, decisions or actions that can influence the financial institution's capability to create value, successfully implement its strategies and achieve its goals, as well as individuals and legal entities that are influenced by the financial institution's operations.

Supply chain is a network of resources, technologies, operations and individuals involved in creating and selling a product or service – from material supplies and production to distribution and sale to end consumers.

Sustainable development is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs; a three-dimensional conceptual model of development supporting

[69] The alternative term is 'parties concerned'.

simultaneous development of the global system in three key dimensions: economic, social and environmental.[70]

Value chain is a series of all the processes of an entity that form its business model and transform inflows into outflows by creating value added.

[70] Report of the World Commission on Environment and Development: Our Common Future, 1987.